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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 001204

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TAGS: PGOV PREL ETRD TW

SUBJECT: NEW PREMIER CHANG CHUN-HSIUNG ON POLITICS AND  
U.S.-TAIWAN RELATIONS

Classified By: AIT Director Stephen M. Young,  
Reasons: 1.4 (b/d)

¶1. (C) Summary: New Premier Chang Chun-hsiung told the Director on May 25 that he did not expect a breakthrough in cross-Strait relations this election year, but was still hoping for progress on charter flights and allowing PRC tourists to come to Taiwan. Chang noted the increasing local pressure on the KMT to allow passage of the annual budget, which includes the defense budget. Observing that Deep Green independence-related initiatives will raise concerns among the swing voters that Frank Hsieh is hoping to attract, Chang emphasized the need for DPP leaders to reconcile differences and unite in the run up to the 2008 presidential election. The Director stressed to Chang that holding a referendum on joining the UN under the name "Taiwan" could damage U.S.-Taiwan relations. Chang promised to discuss this issue with DPP Chairman Yu Shyi-kun, noting that there are different views within the party on the advisability of holding a UN referendum. End Summary.

Cross-Strait Relations

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¶2. (C) The Director met with new Premier Chang Chun-hsiung on May 25 to discuss the new cabinet's political and economic priorities over the coming year. Chang, who was head of the Straits Exchange Foundation before his recent reappointment as premier, told the Director he did not expect a breakthrough in cross-Strait relations in the run up to the 2008 presidential election. Beijing plans to give full support to the pan-Blue and so will not want to take steps for which President Chen Shui-bian and the DPP could take credit, Chang argued. Nonetheless, he hoped there could be progress on issues such as cargo charter flights, allowing PRC tourists to come to Taiwan, and having the Olympic torch pass through Taiwan.

TIFA and FTA

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¶3. (C) Chang told the Director he fully understood that negotiating a Free Trade Agreement with Taiwan at this time would be difficult for the U.S., though Taiwan hopes to have an FTA in the future. For the present, Taiwan is looking

forward to continuing the TIFA process, including negotiating bilateral agreements on tax and investment.

#### Standoff over the Annual Budget

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¶4. (C) The Director asked Chang about the ongoing standoff in the Legislative Yuan and its failure to pass the annual budget, including the critical defense budget. Chang predicted that the pan-Blue will be damaged by its refusal to pass the budget, which has a negative effect on the economic growth rate. Even KMT-controlled local governments are feeling pressure because the lack of a budget affects infrastructure projects and other local programs. On the military side, the recent crash of an old F-5 aircraft highlights the lack of funds for military modernization resulting from the pan-Blue's obstruction of the defense budget. The KMT will have to pay attention to such issues in the run up to legislative and presidential elections, Chang observed.

¶5. (C) The KMT is holding the annual budget hostage to its bill on reorganizing the Central Election Commission (CEC), Chang observed. The DPP will not yield to the KMT plan to appoint members of the CEC in accordance with party strength in the Legislative Yuan (LY) because such a plan is unconstitutional. While the KMT may try to use the pan-Blue majority to force the CEC bill through the LY, it is unlikely to call in the police, which would cause long-term damage and has only happened once in over twenty years. If the KMT did manage to pass the CEC bill, the government could request a revote, seek a constitutional ruling, or take other legal measures. (Note: The Taiwan media is reporting that DPP and KMT caucus leaders reached a preliminary compromise agreement

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on May 30 on the CEC issue, which, if no further problems develop, may pave the way for passage of the annual budget, including the defense budget. End Note.)

#### A More Harmonious Political Atmosphere

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¶6. (C) Chang noted that Taiwan is still going through a period of adjustment, following the changeover from KMT to DPP rule in 2000. In 2000, he observed, neither the DPP nor the KMT were prepared to play their new roles as ruling and opposition parties respectively. Effective democracy needs benign competition between political parties within the framework and law, Chang suggested, adding that both the KMT and DPP need to become more mature in their approach to each other. As an example of cross-party cooperation, Chang recalled how he had brought the New Party's Hau Long-bin into his cabinet as environmental protection administrator and how he had found a new position for Hau's assistant when Hau later left the DPP government.

#### Upcoming Elections

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¶7. (C) Frank Hsieh will need to attract moderate swing voters to win the 2008 presidential election, Chang observed. If Deep Green fundamentalists push an independence-related agenda, however, that will worry the swing voters. So, the question is how to allay such concerns and attract the swing voters. Heading into the 2008 election, the DPP will need to unify internally, including finding ways to reconcile differences between Frank Hsieh, President Chen, and DPP Chairman Yu Shyi-kun, Chang stressed.

¶8. (C) Many different factors could affect the outcome of upcoming elections, Chang noted, including whether the LY and presidential elections are held separately or jointly, possibly together with a referendum. When there were separate presidential and legislative elections in 2004, Chang recalled, the DPP won just over 50 percent in the

presidential election, but the combined pan-Green vote percentage fell by almost 10 percent in the subsequent LY elections. Whether it would be better to hold the LY and presidential elections together or separately this time is a very complicated issue. For example, if the elections are combined, they would be held on January 19 or 20. That is the coldest time of the year, so one question is which groups would be likely to vote or not vote during cold weather.

¶9. (C) One year ago, people were saying no one could compete with the KMT's Ma Ying-jeou, Chang observed. Now, however, even within the KMT, many people are saying that the DPP may win the 2008 presidential election. Nonetheless, Chang said, it is not clear at this point what the final election result will be.

UN Referendum Issue

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¶10. (C) The Director stressed that, although the U.S. does not take a position on the DPP's plan to hold a referendum on KMT party assets, holding a referendum on joining the UN under the name Taiwan could damage U.S.-Taiwan relations. Emphasizing that the U.S. is Taiwan's best friend, Chang said he would convey the U.S. view and discuss this issue with DPP Chairman Yu Shyi-kun, adding that within the DPP there are different opinions on the advisability of holding a UN referendum.

Comment

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¶11. (C) While former Premier Su Tseng-chang was a demanding and effective administrator, his status as a potential DPP presidential candidate exposed him to a great deal of attention and criticism that complicated efforts to work with the opposition-controlled LY. Chang, who is experienced, close to President Chen, and has no ambitions beyond his current position, is low key and projects a conciliatory

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image, important attributes which will help the DPP government maneuver through the upcoming contentious election year

YOUNG